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**ECONOMIC INTELLIGENCE REPORT**

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JANUARY - 30 JUNE 1957**

**EIC-R14-S3**

**28 August 1957**

**ECONOMIC INTELLIGENCE COMMITTEE**

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FOREWORD

The reports on Sino-Soviet Bloc Economic Activities in Underdeveloped Areas in the EIC-R-14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Sino-Soviet Bloc countries with the underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series, under the same title.

This report, covering the 6 months from 1 January through 30 June 1957, constitutes the third periodic supplement to EIC-R-14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. This supplement was prepared by a Working Group of the Economic Intelligence Committee, including representatives of the Departments of State, the Army, the Navy, the Air Force, Commerce, and Agriculture; the International Cooperation Administration; the Office of the Secretary of Defense; and the Central Intelligence Agency. It was approved by the Economic Intelligence Committee on 8 August 1957.

For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all countries in South and Southeast Asia; (2) all countries in the Middle East, including Egypt, Sudan, Turkey, and Greece; (3) the independent countries of Africa, except the Union of South Africa; (4) the European countries of Yugoslavia, Iceland, Spain, and Portugal; and (5) all independent countries in Latin America.

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1 JANUARY - 30 JUNE 1957

Summary

Sino-Soviet Bloc economic activities in the underdeveloped countries of the Free World continued to expand during the first 6 months of 1957 despite the fact that only a few new credits were extended. This expansion was manifested in increasing implementation of already-established credits, a growing influx of Bloc technicians into the underdeveloped countries, and increasing Bloc trade with these countries. Substantial arms deliveries continued during the period.

The limited extension of new credits seemed to be a result of limited prime opportunities for exploitation by the Bloc in Free World underdeveloped areas and is not to be identified with any shift in Soviet policy. Pressures stemming from certain economic stresses and political uncertainties within the Bloc may, nevertheless, have induced Soviet leaders to be more cautious with regard to increasing their economic commitments where political returns did not appear to be fairly immediate and substantial.

In the underdeveloped countries that have accepted Bloc economic assistance, significant progress was made on projects under way, new projects were begun, and surveys were made so that work can begin on other projects. Notable advances in these respects occurred, particularly in Afghanistan and India, two major recipients of Bloc assistance. Deterioration of Yugoslav-Soviet relations, on the other hand, led the USSR to postpone the implementation of important projects in Yugoslavia.

The Bloc continued to seek opportunities for increased economic relations in the underdeveloped countries that have not accepted substantial credits, including members of Free World defensive alliances. In most instances this search did not produce significant

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results. Iceland accepted a small credit from East Germany, however, and is now considering a larger credit offer from the USSR. If this credit offer is accepted by Iceland, it will result in the first Soviet loan to a NATO member country.

Total credits extended by the Soviet Bloc to underdeveloped countries since the beginning of the economic offensive in 1954 remained at about \$1.4 billion,\* because only a few small credits were extended during the first half of 1957. By 30 June, nearly \$700 million of credits had been obligated, of which approximately \$420 million had been drawn. Practically all arms credits (amounting to approximately \$350 million) had been drawn, but only about one-fourth of the credits obligated for economic purposes. Nearly all of the \$280 million obligated but not yet drawn is for economic purposes. A large part of this amount will probably be drawn during the next several months.

The number of Bloc specialists in the underdeveloped countries for 1 month or longer rose from 1,400 during 1956 to more than 2,000 during the first 6 months of 1957. The increase over 1956 was in large part the consequence of progress made on Bloc projects. As surveys are completed and additional projects are started the number of Bloc specialists in the underdeveloped countries is expected to increase. Furthermore, a number of technicians from underdeveloped countries were being trained in the Bloc, particularly the USSR.

Sino-Soviet Bloc trade with the underdeveloped countries continued to expand rapidly during 1956.\*\* The increase in this trade in 1956 was about 20 percent over 1955. Total Sino-Soviet Bloc imports and European Satellite exports continued in 1956 at about the level of 1955, but the USSR and Communist China exported nearly twice as much in 1956 as they had in 1955. The increase in Communist China's exports took place for the most part in trade with other Asian countries. The increase in Soviet exports was largely concentrated in three countries -- India, Egypt, and Yugoslavia. It appeared that the expansion in Soviet exports to Yugoslavia and India was the result of the implementation of Soviet credits to those countries. The increase in Soviet exports to Egypt was essentially

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\* All value figures in this report are given in US dollar equivalents.

\*\* Trade data for the first 6 months of 1957 were not generally available at the time this report was prepared.

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the result of emergency shipments made by the USSR following the closing of the Suez Canal.

A new arms agreement was reached between Egypt and the Bloc during the first 6 months of 1957, and substantial deliveries of Bloc military equipment were made to Egypt, Syria, Afghanistan, and Yemen under previous agreements.

A summary of Bloc economic activities in underdeveloped areas, by region, follows:

South Asia.

The principal targets of Bloc economic activity in South Asia continued to be Afghanistan and India. There were no significant developments in the Bloc's economic relations with Ceylon and Pakistan.

In Afghanistan the Soviet Bloc's economic activities at mid-year remained widespread despite some Afghan complaints that the costs of Soviet aid projects are high. Deliveries of military equipment, however, continued to arrive regularly. Although somewhat suspicious of Soviet motives, Afghan government officials continued to believe that Bloc economic and military aid could be accepted without jeopardizing Afghan independence.

Trade between India and the Sino-Soviet Bloc expanded markedly in 1956. The Indian government appeared satisfied with Soviet economic assistance in general and with progress on the Bhilai steel plant in particular despite some minor difficulties. Recent drains on India's foreign exchange holdings, and the magnitude of India's capital needs if the goals of its Five Year Plans are to be met, have undoubtedly contributed to India's receptive attitude toward further Bloc assistance. Soviet technicians have completed surveys on various projects including India's heavy machinery program. The Indian government has begun to plan use of the \$126-million Soviet credit which was granted in 1956, for use beginning in 1959, and which may be made available before that date.

Ceylon's and Pakistan's economic relations with the Sino-Soviet Bloc continued to consist primarily of trade with Communist China. In February, Nepal received the first portion of its \$12.6-million grant from Communist China.

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Southeast Asia.

During the first half of 1957 the Bloc economic offensive in Southeast Asia continued to be concentrated in Burma, Indonesia, and Cambodia. The offensive seemed, however, to have lost some momentum. No major economic aid agreements were entered into, and some delays occurred in the implementation of existing agreements.

Early in the year, Burma and the USSR reached agreement regarding the construction of a technological institute and five other public buildings which had been promised to Burma for some time. The total cost of these projects is estimated at \$50 million, about half of which is to be furnished by the USSR in the form of materials and services, with repayment in rice and other exports. Bloc technical assistance continued to be utilized by Burma in 1957, with about 35 Bloc technicians, mainly agricultural and irrigation experts, on hand.

The \$100-million Soviet loan agreement with Indonesia, signed in September 1956, has still not been ratified by the Indonesian parliament. The arrival of 400 Soviet jeeps for the Indonesian armed forces in May marked the first receipt of Bloc military goods by a Free World country in Southeast Asia. So far in 1957, about 70 Bloc technicians have been working in Indonesia, including 40 East Germans assisting in the construction of a sugar mill. Indonesia's deteriorating economic situation, marked by a drastic decline in foreign exchange reserves during the first half of 1957, has opened new opportunities for Bloc economic activity.

In Cambodia, implementation of existing agreements and negotiation of new ones have been slow. Communist Chinese deliveries under the aid agreement of June 1956, after some delays, began at the end of April. The products delivered so far have been auctioned by the government to generate funds for certain projects. No general aid agreement resulted from the negotiations between Cambodia and the USSR, although it has been announced that economic aid negotiations will be resumed. Agreement was reached at the end of May for Soviet assistance in the construction of a hospital.

Laos refused to accept an offer of military and economic aid reportedly amounting to about \$74 million from Communist China. Thailand rejected offers of assistance from Communist China and the USSR.

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Trade with Burma, Malaya, and Indonesia accounted for more than 95 percent of Bloc trade with Southeast Asia in 1956, excluding trade through or with Hong Kong. Communist China's share of this trade rose from 46 percent in 1955 to 57 percent in 1956. Bloc trade with Burma and Malaya increased significantly; trade with Indonesia, however, showed a slight decline, despite a sharp rise in trade with Communist China. Burma's trade with the Bloc in 1957, however, will probably decline as a result of the readjustment of Burma's agreements on rice exports to the Bloc. Cambodia's direct trade with the Bloc remained negligible in spite of the April 1956 trade agreement with Communist China.

Middle East and Africa.

The Soviet Bloc's economic involvement in Egypt and Syria was greater during the first half of 1957 than in previous periods. The Bloc did not provide any new economic credits to Egypt during the period, but a new arms agreement which probably involved a credit arrangement was signed. During the first 4 months of 1957, Egypt's trade with the USSR exceeded by a substantial margin Egyptian-Soviet trade during the entire year 1956. About one-half of Egypt's foreign trade during this period was with the Bloc, which, until the reopening of Suez, supplied a major portion of Egypt's wheat and virtually all of its finished petroleum requirements. Bloc countries are currently implementing several contracts for development projects awarded prior to 1957.

The expansion in Syria's economic relations with the Bloc was evidenced by the continued shipment of arms, a sharp increase in trade, and the awarding of the Homs oil refinery and other construction contracts to the Bloc. The reopening of the trans-Syrian pipeline removed the temporary importance of the Bloc in supplying petroleum products to Syria, but the Bloc's share of Syria's cotton exports continued to rise. Moreover, recent Bloc trade promotion activities together with the refinery construction contract and other credits seem likely to result in a continued increase in Syria's imports from the Bloc.

In Sudan there were vague Soviet offers of technical assistance on irrigation and agricultural projects, and a contract was signed with East Germany to supply a complete cotton mill. Soviet Bloc supplies and technicians continued to arrive in Yemen in connection with Soviet Bloc military assistance and economic development projects.

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In Iran the principal development was a somewhat reluctant decision to conclude a 3-year trade agreement and a new transit agreement with the USSR and to consider joint Soviet-Iranian multi-purpose development of two border rivers. The Soviet Bloc continued its offers of short- and medium-term credits to Turkey and may have increased its share of total Turkish trade during the period. A significant development in Greece's economic relations with the Bloc was the conclusion of a trade protocol with the USSR which calls for more than a doubling of trade between the two countries. Greek trade with the Bloc continued to expand during the first 6 months of 1957. Greek acceptance of a Czechoslovak bid to provide telephone equipment at a key communications point aroused some concern from the point of view of NATO communications security, and this problem is still unresolved.

Bloc economic activities in Africa were largely confined to trade which was still very small in 1956 but which showed signs of increasing during the first half of 1957. The Bloc continued to show interest in expanding economic relations with the independent African countries.

#### Latin America.

Offers of new credits from the Bloc so far in 1957 and acceptances by Latin American countries were fewer than in previous periods despite the fact that demands for capital goods in Latin America continued high. The wariness of Latin American countries regarding the introduction of Bloc technicians has played a part in the rejection of certain recent Bloc offers of economic assistance. Czechoslovakia has delivered and constructed plants in Argentina with only moderate delays in the original schedules.

Although the pattern is not wholly consistent, Latin American countries generally tended in the first part of 1957 to resist Bloc efforts to expand the network of bilateral trade and payments agreements which has formed the basis for much of their trade with the Bloc. Brazil, in its efforts to adopt increased multilateralism, has refused to renew agreements with Czechoslovakia and Poland. Instead, short 3-month extensions have been agreed to while Brazil attempted to obtain more favorable payments terms. Uruguay has a similar objective and has in its interbank agreements with Czechoslovakia and Poland obtained provision for a degree of convertibility in settling trade balances. Argentina, although desirous of similar

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arrangements, is in a weaker bargaining position and is in process of renewing its trade and payments agreement with Czechoslovakia.

Perhaps the principal characteristic of Latin American - Bloc trade in 1956 was the effort made by the major participants -- Argentina, Brazil, and Uruguay -- to reduce the export balances which developed in 1954-55. As of early 1957, it appeared that these efforts had to a large extent succeeded.

Bloc countries were again important sugar customers in Cuba. The Bloc has purchased 385,000 tons of sugar so far this year, compared with purchases of 250,000 tons in 1956. These purchases have contributed to the sharp rise in world sugar prices and to insuring complete disposal of current Cuban stocks.

Europe.

Yugoslavia's growing dissatisfaction with Soviet postponement of credits for development projects highlighted the first half of 1957. In addition, promised Soviet cooperation in the nuclear energy field did not materialize. Agreement has been reached, however, on obligation of \$100 million of the \$460 million in credits extended to Yugoslavia by the Bloc. Drawings in 1956 were \$55 million, and \$45 million is scheduled to be drawn during 1957. In the field of technical assistance the exchanges planned for 1957 were reported to be slow in getting under way. The Yugoslav government is attempting to get the USSR to step up deliveries for development projects, and negotiations toward this end have taken place.

The trade of Yugoslavia with the Bloc in 1956 amounted to 23 percent of total Yugoslav trade, compared with 10 percent in 1955. The data for the first quarter of 1957 suggest that trade in 1957 will probably be at about the same level as in 1956, with Soviet trade less important and trade with the Satellites, notably Poland, increased.

The only new Soviet Bloc credit accepted by a Free World European country covered Icelandic purchases from East Germany of fishing vessels costing about \$3.2 million. Iceland also received an offer from the USSR of long-term credits of up to \$24.5 million, including the refinancing on favorable terms of the vessel contracts with East Germany. Iceland's trade with the Bloc increased 14 percent in 1956 and constituted 28 percent of Iceland's total trade.

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